

CITY OF KANAWHA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

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CITY OF KANAWHA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Johnson	Mayor	Jan 2016
Mike Brooks	Council Member	Jan 2014
Nancy Litch	Council Member	Jan 2014
Christa Hanson	Council Member	Jan 2014
Sherrie Johnson	Council Member	Jan 2016
Ray Bassett	Council Member	Jan 2016
Sharon Grimm	City Clerk	July 2013
Earl Hill	Attorney	July 2013



Renner & Birchem, PC

Certified Public Accountants

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Kanawha's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 12 and 25 through 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2013 on our consideration of City of Kanawha's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Kanawha's internal control over financial reporting and compliance.

October 7, 2013



Renner & Birchem, P.C.
Britt, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Kanawha provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 3.7%, or \$18,369 from fiscal 2012 to fiscal 2013. Property tax receipts decreased \$23,181 and operating grants, contributions and restricted interest increased \$3,637.
- Disbursements decreased 2.9% or \$15,372 in fiscal 2013 from fiscal 2012. Debt service and public safety disbursements decreased \$22,950, \$3,964, respectively. Culture and recreation disbursements increased \$10,061.
- The City's total cash basis net position increased 10.6%, or \$63,959 from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased \$7,244 and the cash basis net position of the business type activities increased by \$56,715.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial

statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information that helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$293,923 to \$301,167. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Government Activities		
Receipts:	Year Ended June 30,	
Program receipts:	2013	2012
Operating grants, contributions and restricted interest	\$ 107,689	104,052
General receipts:		
Property tax	289,911	313,092
Local option tax	56,150	55,000
Unrestricted interest	1,148	1,156
Other general receipts	29,539	29,506
Total receipts	484,437	502,806

Disbursements:		
Public safety	146,040	150,004
Public works	134,056	125,169
Culture and recreation	63,493	53,432
Community and economic development	1,528	1,597
General government	96,413	103,750
Debt service	70,663	93,613
Total disbursements	<u>512,193</u>	<u>527,565</u>
Change in cash basis net position before transfers	(27,756)	(24,759)
Transfers, net	<u>35,000</u>	<u>55,000</u>
Change in cash basis net position	7,244	30,241
Cash basis net position beginning of year	<u>293,923</u>	<u>263,682</u>
Cash basis net position end of year	<u><u>301,167</u></u>	<u><u>293,923</u></u>

The City's total receipts for governmental activities decreased by 3.7%, or \$18,369. The total cost of all programs and services decreased by \$15,372, or 2.9%, with no new programs added this year.

The cost of all governmental activities this year was \$512,193 compared to \$527,565 last year. However, as shown in the Statement of Activities and Net Position on page 14, the amount taxpayers ultimately financed for these activities was only \$404,504 because some of the cost was paid by those directly benefiting from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$107,689). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2013 from \$104,052 to \$107,689.

Changes in Cash Basis Net Position of Business Type Activities		
Receipts:	Year Ended June 30,	
Program receipts:	2013	2012
Charges for service:		
Water	\$ 123,898	120,863
Sewer	70,891	70,281
Total receipts	194,789	191,144
Disbursements:		
Water	55,325	46,445
Sewer	22,361	23,841
Debt Service	25,388	24,119
Total disbursements	103,074	94,405
Change in cash basis net position before transfers	91,715	96,739
Transfers, net	(35,000)	(55,000)
Change in cash basis net position	56,715	41,739
Cash basis net position beginning of year	308,585	266,846
Cash basis net position end of year	\$ 365,300	308,585

Total business type activities receipts for the fiscal year were \$194,789 compared to \$191,144 last year. Total disbursements, including debt service, for the fiscal year increased by \$8,669 to a total of \$103,074. The cash balance increased by \$56,715 during the fiscal year compared to an increase of \$41,739 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Kanawha completed the year, its governmental funds reported a combined fund balance of \$301,167, an increase of \$7,244 from last year's total of \$293,923. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$9,070 from the prior year to \$124,233. Net transfers of \$89,490 were received from other funds.
- The Road Use Tax Fund cash balance increased by \$4,613 to \$129,998 during the fiscal year. The City intends to use this money to upgrade the condition of all city roads.
- There was an increase in the Debt Service Fund cash balance of \$454 for an ending balance of \$1,134.

- The Employee Benefits Fund balance increased by \$11,097 to \$30,105 during the fiscal year.
- The Local Option Fund balance increased by \$150 to \$15,697 during the fiscal year. \$54,490 was transferred to the General Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$33,573 to \$256,280 during the fiscal year.
- The Sewer Fund cash balance increased by \$23,142 to \$102,471 during the fiscal year.
- There was no change in the Sewer Revenue Reserve cash balance. The balance remained at \$2,049.
- There was no change in the Sewer Improvement Fund cash balance. The balance remained at \$4,500.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amended budget was approved on May 14, 2013 to provide for additional \$18,500 receipts and an increase of \$21,000 in disbursements.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$440,000 in general obligation and revenue bonds, compared to \$515,000 at the end of the prior year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2013	2012
General obligation bonds	\$ 440,000	490,000
Revenue notes		25,000
Total	<u>\$ 440,000</u>	<u>515,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$440,000 is below its constitutional debt limit of approximately \$1,069,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Kanawha's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities. Economic factors in the area remain steady as the county unemployment rate remains one of the lowest in the state.

These among other economic factors were taken into account when adopting the budget for fiscal year 2014. Amounts available for appropriation in the operating budget are \$684,377, an increase of .8% from the final 2013 budget. Budgeted disbursements are expected to increase by \$29,115. The City has added no major new programs or initiatives to the 2014 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$6,608 by the close of 2014. Actual amounts can and usually do differ from budgeted amounts.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Grimm, City Clerk, 121 North Main Street, Kanawha, Iowa.

BASIC FINANCIAL STATEMENTS

City of Kanawha

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:						
Governmental activities:						
Public safety	\$ 146,040		29,574	(116,466)		(116,466)
Public works	134,056		62,439	(71,617)		(71,617)
Culture and recreation	63,493		15,676	(47,817)		(47,817)
Community and economic development	1,528			(1,528)		(1,528)
General government	96,413			(96,413)		(96,413)
Debt service	70,663			(70,663)		(70,663)
Total governmental activities	512,193		107,689	(404,504)		(404,504)
Business type activities:						
Water	55,325	123,898			68,573	68,573
Sewer	47,749	70,891			23,142	23,142
Total business type activities	103,074	194,789			91,715	91,715
Total	\$ 615,267	194,789	107,689	(404,504)	91,715	(312,789)
General Receipts:						
Property tax levied for:						
General purposes				\$ 151,438		151,438
Employee benefits and insurance				67,356		67,356
Debt service				71,117		71,117
Local option sales tax				56,150		56,150
Unrestricted interest on investments				1,148		1,148
Miscellaneous				29,482		29,482
Sale of assets				57		57
Transfers				35,000	(35,000)	
Total general receipts and transfers				411,748	(35,000)	376,748
Change in cash basis net position				7,244	56,715	63,959
Cash basis net position beginning of year				293,923	308,585	602,508
Cash basis net position end of year	\$			301,167	365,300	666,467
Cash Basis Net Position						
Restricted:						
Expendable:						
Streets				\$ 129,998		129,998
Debt service				1,134	6,549	7,683
Other purposes				45,802		45,802
Unrestricted				124,233	358,751	482,984
Total cash basis net position	\$			301,167	365,300	666,467

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2013

	Special Revenue					Total
	General	Road Use Tax	Local Option	Employee Benefits	Debt Service	
Receipts:						
Property tax	\$ 151,438			67,356	71,117	289,911
Other city tax			56,150			56,150
Licenses and permits	665					665
Use of money and property	1,348					1,348
Intergovernmental	45,250	62,439				107,689
Miscellaneous	28,617					28,617
Total receipts	227,318	62,439	56,150	67,356	71,117	484,380
Disbursements:						
Operating:						
Public safety	123,252			22,788		146,040
Public works	60,135	57,826	885	15,210		134,056
Culture and recreation	60,297		625	2,571		63,493
Community and economic development	1,528					1,528
General government	80,723			15,690		96,413
Debt service					70,663	70,663
Total disbursements	325,935	57,826	1,510	56,259	70,663	512,193
Excess (deficiency) of receipts over (under) disbursements	(98,617)	4,613	54,640	11,097	454	(27,813)
Other financing sources (uses):						
Sale of assets	57					57
Operating transfers in	89,490					89,490
Operating transfers out			(54,490)			(54,490)
Total other financing sources (uses)	89,547		(54,490)			35,057
Net change in cash balances	(9,070)	4,613	150	11,097	454	7,244
Cash balances beginning of year	133,303	125,385	15,547	19,008	680	293,923
Cash balances end of year	\$ 124,233	129,998	15,697	30,105	1,134	301,167
Cash Basis Fund Balances						
Restricted for:						
Debt service					1,134	1,134
Streets		129,998				129,998
Other purposes			15,697	30,105		45,802
Unassigned	\$ 124,233					124,233
Total cash basis fund balances	\$ 124,233	129,998	15,697	30,105	1,134	301,167

See notes to financial statements.

City of Kanawha

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2013

	Enterprise Funds				
	Water	Sewer Rental	Sewer Revenue Reserve	Sewer Improvement	Total
Operating receipts:					
Charges for service	\$ 123,898	70,891			194,789
Total operating receipts	123,898	70,891			194,789
Operating disbursements:					
Business type activities	55,325	22,361			77,686
Total operating disbursements	55,325	22,361			77,686
Excess of operating receipts over operating disbursements	68,573	48,530			117,103
Non-operating (disbursements):					
Debt service		25,388			25,388
Net non-operating (disbursements)		25,388			25,388
Excess of receipts over disbursements	68,573	23,142			91,715
Operating transfers out	(35,000)				(35,000)
Net change in cash balances	33,573	23,142			56,715
Cash balance beginning of year	222,707	79,329	2,049	4,500	308,585
Cash balances end of year	\$ 256,280	102,471	2,049	4,500	365,300
Cash Basis Fund Balances					
Restricted for debt service			2,049	4,500	6,549
Unrestricted	\$ 256,280	102,471			358,751
Total cash basis fund balances	\$ 256,280	102,471	2,049	4,500	365,300

See notes to financial statements.

CITY OF KANAWHA

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

The City of Kanawha is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1899 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Kanawha has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hancock County Assessor's Conference Board, Hancock County Development Commission, Community Fire Board and Library Board.

B. Basis of Presentation

Government-wide Financial Statements – The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2013

Nonexpendable restricted net position are subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has elected to report all governmental funds as major funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Fund is used to account for local option tax receipts and disbursements.

The Employee Benefits Fund is used to account for property tax collected and payment of employee benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2013

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Sewer Revenue Reserve and Sewer Improvement Funds are included as discretionary major funds as required by the City's debt agreements.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2013

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investment consisted entirely of certificates of deposits in local banks. The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No.3 as amended by Statement No. 40.

(3) **Bonds Payable**

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Total	
	Principal	Interest	Principal	Interest
2014	\$ 55,000	18,413	55,000	18,413
2015	55,000	16,212	55,000	16,212
2016	60,000	13,958	60,000	13,958
2017	65,000	11,482	65,000	11,482
2018	65,000	8,785	65,000	8,785
2019	70,000	6,055	70,000	6,055
2020	70,000	3,045	70,000	3,045
Total	<u>\$ 440,000</u>	<u>77,950</u>	<u>440,000</u>	<u>77,950</u>

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2013

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by the state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$13,168, \$12,259 and \$11,147 respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits(OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 3 active members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

The dental benefits are provided through a fully-insured plan with Delta Dental. Retirees pay the same premium for the dental benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$590 for single coverage for medical/prescription drug benefits and \$46 for single coverage and \$129 for family coverage for dental benefits. The same monthly premiums apply to retirees. For the year ended June 30, 2013 the City contributed \$25,988.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2013

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. Comp time hours are accumulated for subsequent use but are not paid upon termination or retirement. These accumulations are not recognize as disbursements by the City until used or paid. The City's approximate liability for earned vacation to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2013</u>
Vacation	\$ <u>8,351</u>

This liability has been computed based on rates of pay as of June 30, 2013.

(7) Leases

The City of Kanawha has entered into a lease purchase agreement to lease a loader/plow. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at June 30, 2013.

<u>Year Ending</u>	<u>Loader/Plow</u>
2014	\$ 16,863
2015	16,863
2016	16,863
2017	16,863
2018	<u>16,863</u>
Total	84,315
Less amount representing interest	<u>712</u>
Present value of minimum net lease payments	\$ <u>83,603</u>

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$6,786 during the year ended June 30, 2013.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2013

(9) Risk Management

The City of Kanawha is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option	\$ 54,490
	Enterprise:	
	Water	<u>35,000</u>
Total		\$ <u>89,490</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

OTHER INFORMATION

City of Kanawha

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 289,911		289,911	280,291	280,291	9,620
Other city tax	56,150		56,150	64,754	64,754	(8,604)
Licenses and permits	665		665	1,226	1,226	(561)
Use of money and property	1,348		1,348	1,425	1,425	(77)
Intergovernmental	107,689		107,689	106,162	106,162	1,527
Charges for services		194,789	194,789	194,600	194,600	189
Miscellaneous	28,617		28,617	11,874	30,374	(1,757)
Total receipts	484,380	194,789	679,169	660,332	678,832	337
Disbursements:						
Public safety	146,040		146,040	140,147	161,147	15,107
Public works	134,056		134,056	141,812	141,812	7,756
Culture and recreation	63,493		63,493	69,112	69,112	5,619
Community and economic development	1,528		1,528	2,000	2,000	472
General government	96,413		96,413	109,748	109,748	13,335
Debt service	70,663		70,663	70,663	70,663	
Business type activities		103,074	103,074	107,388	107,388	4,314
Total disbursements	512,193	103,074	615,267	640,870	661,870	46,603
Excess (deficiency) of receipts over (under) disbursements	(27,813)	91,715	63,902	19,462	16,962	46,940
Other financing sources, net	35,057	(35,000)	57			57
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	7,244	56,715	63,959	19,462	16,962	46,997
Balances beginning of year	293,923	308,585	602,508	573,820	573,820	28,688
Balances end of year	\$ 301,167	365,300	666,467	593,282	590,782	75,685

See accompanying independent auditor's report.

City of Kanawha

Notes to Other Information – Budgetary Reporting

June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$21,000. The budget amendment is reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

City of Kanawha

Schedule of Indebtedness

Year ended June 30, 2013

Obligation	Date of Issue	Rate of Interest	Amount Originally Issued	Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:							
General corporate purpose	5/1/2007	4.00 - 4.35%	\$ 815,000	490,000	50,000	440,000	20,413
Total				490,000	50,000	440,000	20,413
Revenue bond:							
Sewer lagoon	12/30/1992	4.62%	\$ 242,000	19,000	19,000		293
Sewer	12/30/1992	4.37	73,000	6,000	6,000		93
Total				25,000	25,000		386

See accompanying independent auditor's report.

CITY OF KANAWHA

Bond and Note Maturities

June 30, 2013

GENERAL OBLIGATION NOTES			
Year Ending June 30,	General Corporate Purpose Issued October 1, 2000		
	Interest Rates	Amount	
2014	4.000%	\$	55,000
2015	4.100		55,000
2016	4.125		60,000
2017	4.150		65,000
2018	4.200		65,000
2019	4.300		70,000
2020	4.350		70,000
Total		\$	440,000

See accompanying independent auditor's report.

CITY OF KANAWHA

Schedule of Receipts By Source and Disbursements By Function
All Governmental Funds
For the Last Ten Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:										
Property tax	\$ 289,911	313,092	334,442	342,808	309,714	277,321	230,406	222,467	220,944	204,334
Other city tax	56,150	55,000	47,666	65,285	59,367	46,952	49,065	51,972	44,957	46,235
Licenses and permits	665	740	370	450	450	260	265	678	1,015	570
Use of money and property	1,348	1,531	1,867	2,526	4,495	4,992	3,008	4,266	2,961	2,461
Intergovernmental	107,689	104,052	108,809	113,065	133,893	350,451	64,078	125,571	74,199	110,985
Charges for service						310	2,903	290	2,467	16,207
Miscellaneous	28,617	8,289	19,292	10,860	8,305	7,284	70,946	55,921	106,000	67,235
Total	<u>\$ 484,380</u>	<u>482,704</u>	<u>512,446</u>	<u>534,994</u>	<u>516,224</u>	<u>687,570</u>	<u>420,671</u>	<u>461,165</u>	<u>452,543</u>	<u>448,027</u>
Disbursements:										
Operating:										
Public safety	\$ 146,040	150,004	155,093	146,247	118,398	136,592	115,850	181,550	110,432	163,609
Public works	134,056	125,169	153,343	144,560	137,752	118,378	105,846	134,784	145,840	109,102
Culture and recreation	63,493	53,432	51,481	54,153	45,061	53,996	54,464	55,068	61,138	59,911
Community and economic development	1,528	1,597	575	1,733	701	6,033	1,733	2,860		2,805
General government	96,413	103,750	85,871	89,516	83,867	93,405	83,732	79,402	69,823	56,736
Debt service	70,663	93,613	117,461	116,108	109,355	105,062	358,512	58,460	76,075	68,035
Capital projects					21,784	455,722	371,642	30,096	10,000	
Total	<u>\$ 512,193</u>	<u>527,565</u>	<u>563,824</u>	<u>552,317</u>	<u>516,918</u>	<u>969,188</u>	<u>1,091,779</u>	<u>542,220</u>	<u>473,308</u>	<u>460,198</u>

See accompanying independent auditor's report.



Renner & Birchem, PC

Certified Public Accountants

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 7, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kanawha's internal control over financial reporting audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Kanawha's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kanawha's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Kanawha's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-13 through I-C-13 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kanawha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Kanawha's Responses to Findings

City of Kanawha's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Kanawha's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion of them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Kanawha during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

October 7, 2013



Renner & Birchem, P.C.
Britt, Iowa

City of Kanawha

Schedule of Findings

Year Ended June 30, 2013

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

I-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts functions and the cash disbursement functions are all done by the same person.

Recommendation - We realize that with a limited number of employees segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-13 Preparation of Financial Statements –The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for the governmental entity similar in population to the City of Kanawha. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2013

Part I: Findings Related to the Financial Statements: (continued)

I-C-13 Unsubstantiated Fixed Asset Disbursement – A speed trailer was purchased without proper documentation.

Recommendation – Checks should be prepared only from invoices. Documentation should always support all disbursements.

Response – We will do so in the future.

Conclusion - Response accepted.

Instances of Non – Compliance:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget – Disbursements during the year ended June 30, 2013, did not exceed amounts budgeted.

II-B-13 Questionable Disbursements – We noted no disbursements that do not meet the requirements of public purpose as defined in Attorney General’s opinion dated April 25, 1979.

II-C-13 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-13 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mark Hennigar, Police, Hennigar’s Air Care	Repairs and Air Conditioner/Furnace	\$ 6,782
Nancy Litch, Council Member Old Bank Winery	Supplies	\$ 4

City of Kanawha

Schedule of Findings

Year Ended June 30, 2013

Part II: Other Findings Related to Required Statutory Reporting: (continued)

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Police Chief may represent a conflict of interest since a competitive bidding process was not utilized for all transactions and total of the transactions was in excess of \$1,500.

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the council member do not appear to represent a conflict of interest since total transactions with the individual was less than \$1,500 during the fiscal year.

Recommendation – The City should use a competitive bidding process when practicable.

Response – A competitive bidding process is not always practical, however, we will endeavor to competitively bid the work when practicable in the future.

Conclusion – Response accepted.

II-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-13 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

II-G-13 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-13 Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

II-I-13 Delinquent Utility Accounts – At June 30, 2013 two employees or council members had a delinquent utility accounts.

Recommendation – We recommend that the City emphasizes to employees and council members that they are setting an example to the community by their actions.

Response – We will encourage employees and council members to pay their utility bills by their due date.

Conclusion – Response accepted.